



Investment Office

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AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Asset Allocation Update

II. PROGRAM: Total Fund

III. RECOMMENDATION: Information only

IV. ANALYSIS:

The purpose of this item is to update the Committee about the actual asset allocation relative to policy targets.

The table below reflects actual and policy weights and ranges for each asset class as of December 31, 2008 (unaudited).

2008 (billions)		GE	AIM*	GE/AIM combined	GFI*	RE	ILAC*	Cash
	Policy	56.0%	9.5%	65.5%	22.5%	10.0%	2.0%	0%
Total Fund	Actual	40.8%	13.1%	53.9%	24.3%	11.5%	2.06%	8.3%
	Difference	(15.2%)	3.6%	(11.6%)	(1.8%)	1.5%	0.06%	8.3%
\$183.32	\$ (billions)	\$74.83	\$24.05		\$44.60	\$21.05	\$3.60	\$15.18
	Range	+/- 15%	+/- 8%	+/- 15%	+/- 15%	+/- 5%	0% - 5%	0% - 10%

*Targets for AIM, GFI, and ILAC are interim Q4 targets.

As of December 31, 2008, the Total Fund value was \$183.32 billion, down from \$213.5 billion as of September 30, 2008. This decline in fund value is attributable primarily to negative returns in domestic and international equities and writedowns in Real Estate (RE) and Alternative Investments (AIM).

In December 2008 the Committee approved expanded asset allocation ranges as shown in the table on page 1, to provide greater flexibility in this period of extreme volatility. The Global Equity (GE) allocation was 15.2% under the 56% target and 0.2% below the lower range limit. AIM was 3.6% above target (interim 9.5%) and within the new range. Global Fixed Income (GFI) was 1.8% above target but within range. RE was 1.5% above target but within range and Inflation-Linked Assets (ILAC) was within range as well. Cash amounted to 8.3% (\$15.18 billion) compared to a 0% policy target but within the new range of 0% to 15%.

Staff is looking to add to public equities since equities are most underweight while maintaining adequate liquidity for anticipated capital calls and other contingencies in this period of extreme volatility and illiquidity in many market segments.

Staff will present an Asset Allocation review item in the first half of 2009 in collaboration with the Board's consultants.

V. STRATEGIC PLAN:

This item addresses Strategic Plan Goals VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and IX, achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

This item is for information only.

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